UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Docket No. ER10-1791-000

Comments by the Michigan Citizens Against Rate Excess on the Midwest Independent Transmission System Operator, Inc. and the Midwest ISO Transmission Owners Proposed Changes to Transmission Cost Allocation Methodologies

The Midwest Independent Transmission System Operator, Inc. (MISO) has proposed revisions to its Open Access Transmission, Energy and Operating Reserve Markets Tariff. This includes the creation of a new category for transmission projects designated as "Multi Value Projects" (MVP). The Michigan Citizens Against Rate Excess (MICH-CARE) understands the reason for creating this new category was brought on by increasing energy policy mandates among states in MISO's territory. However, we strongly disagree with MISO's proposal to have 100 percent of MVP transmission costs allocated to load and exports. These comments explain why we oppose the MISO proposal as submitted.

I. Introduction

The Citizens Against Rate Excess[1] (MICH-CARE) is a residential ratepayer based Michigan nonprofit corporation, organized, in part, to participate in federal administrative proceedings which "directly affect the energy costs paid by Michigan utilities."[2] The purpose of MICH-CARE in this proceeding is to advocate the adoption of transmission cost allocation rules and methodologies that result in just and reasonable electric rates for the 3.7 million residential

[1] The Michigan based Citizens Against Rate Excess generally uses the acronym "CARE." However, given that the Californians for Renewable Energy has also used the acronym " CARE" in its previous FERC filings, the Michigan group will use the acronym "MICH-CARE."
[2] *See* MCL 460.6m(17).

ratepayers in Michigan. These ratepayers consumer substantial amounts of electricity. In 2009, they consumed approximately 29 million MWh of electricity at a cost of over $3.3 billion.[3]

MICH-CARE hopes that FERC will carefully consider the interests of Michigan's residential ratepayers in this proceeding. As a whole, Michigan's residential ratepayers have suffered greatly in recent years, perhaps more than residential ratepayers in any other MISO state. Michigan's economy is substantially below the economic performance of any other state in the MISO region as measured by the current unemployment rate which is currently at 13.1 percent. This unemployment rate is approximately three percentage points higher than the unemployment rates in other Midwestern states and double and triple the unemployment rates of the states that are anticipated to be the location of the wind generation projects.[4] This differential in unemployment rates explains, in part, why Michigan should not be expected to subsidize projects that benefit other states. Such a subsidy would exist under the cost allocation proposal submitted by MISO. The proposal does not match the benefits and the costs by pricing zones and sub-regions. It is entirely possible that the benefits will be highly skewed towards the North Central states (the states with very low unemployment rates) while the costs will be assigned to all states according to MWh usage. Given that Michigan has a relatively high level of MWh usage, Michigan would be assigned an unreasonably high proportion of the costs.

Michigan's residential ratepayers have also experienced significant increases in their electric rates during this same period of time. Electricity rates (for all customers) are higher in Michigan than in other states in the region. The Michigan residential rate is higher than all other MISO states with the exception of Wisconsin (only about one-tenth of a cent difference). Even Michigan's commercial rates are higher than all other MISO states and its industrial rate is

[3] *See* http://www.dleg.state.mi.us/mpsc/electric/download/electricdata.pdf
[4] See attached Table 1: State Unemployment Rates, July 2010

higher than 10 of the other 12 MISO states.[5] These high C & I rates also harm residential ratepayers as those costs are included in the products and services that residential ratepayers buy. Another example that illustrates high electric rates in Michigan is apparent when comparing the base rates in Michigan with the rest of the country. Between January 2005 through July 2010, Michigan's base electricity rates increased faster than total electricity prices (including fuel impacts) in the rest of the country. Michigan's residential base rates increased between 38 and 40 percent (depending on customer usage) while the consumer price index for electricity across the country only increased by 32 percent during this same period.[6] Adding another unreasonable rate increase would further distort the Michigan rates as well as burden the Michigan economy and impair Michigan's ability to recover from its immense economic problems.

It is MICH-CARE's position that FERC should reject the MISO proposal for the reasons listed below. MICH-CARE requests FERC to adopt another transmission allocation methodology that more closely aligns benefits and costs by sub-region and pricing zone as is required by current law.

II. The Proposed Tariff Change for MVPs Violates the "Cost Causation Principle"

MISO argues that its proposal is consistent with the "cost causation principle," that is, the principle that costs allocated to a party should "at least roughly commensurate" with the benefits that are expected to accrue to that entity[7] However, MISO's proposal clearly violates that

[5] See attached Table 2: Comparative MISO electric rates

[6] For Michigan rates, see http://www.dleg.state.mi.us/mpsc/electric/download/rates1.pdf , the electric price index included in the CPI is Series CUSR000SEF01, www.bls.gov.

[7] MISO proposal at p 12 citing Illinois Commerce Commission v FERC, 576 F.3d 470 (7th Cir. 2009)

principle since, as the testimony of Jennifer Curran states, MISO's own transmission usage analysis shows "100% regional usage is almost never achieved."

> The mileage-weighted analysis of these lines indicates that their use would be overwhelmingly, i.e. 80%, regional. Since virtually every transmission improvement project will necessarily be used locally to some extent (i.e., 100% regional usage is almost never achieved), this very high level of regional usage underscores that these types of facilities are essentially for the purpose of strengthening the regional transmission system, for the use and benefit of all market participants that use the regional grid.[8]

In its proposal, MISO fails to demonstrate a substantial relationship between its cost allocation proposal and any specific benefits that could be directly attributable to its member utilities. MISO does not even discuss transmission usage across the region. It is unlikely that benefits would be evenly distributed or "roughly commensurate" to the costs allocated. In all likelihood, any benefits would quickly decrease as the distance from the MVP increased. It is likely that residential customers who live far away from the project would receive little or no benefit, yet they would be required to help pay for the project under the MISO proposal.

For Michigan, this is especially acute because of the state's relative isolation from the bulk of the MISO RTO system at the northeastern end of the grid with limited access due to the state's geography. Unlike any other state in the nation, Michigan is entirely comprised of two large peninsulas with limited direct transmission interconnection to MISO. The Upper Peninsula consists of over 16,000 square miles of land mass and the Lower Peninsula consists of approximately 40,000 square miles of land mass. The shoreline surrounding these two peninsulas is 3,288 miles long, second only in length to Alaska. The Upper Peninsula is connected to the

[8] Curran Testimony, MISO proposal, Tab G, page 28.

grid through Wisconsin and the Lower Peninsula is connected via Indiana and Ohio. There are no high-power electric transmission lines connecting the two peninsulas. These factors create a "choke point" situation for Michigan's residential ratepayers.[9]

MISO also proposes a change in the methodology for Network Upgrades for Generator Interconnection Projects (GIPs) for Shared Network Upgrade (SNU), as explained in the testimony of Eric Laverty..[10] In this proposal, a "first mover" Interconnection Customer would fund Network Upgrades needed to support the interconnection of the project, (at 100 percent of the costs of the upgrades rated below 345 kV and 90 percent of the costs of Network Upgrades rated above 345 kV, with the remaining 10 percent being recovered on a system-wide basis). However, later Generator Interconnection Projects may be required to contribute to the cost of Network Upgrades. While MISO explains that SNUs typically will be small local upgrades and MVPs will be larger regional projects, this does not explain the nearly complete opposite treatment in the MISO proposal.

III. The Proposed Tariff Change for MVPs Subsidizes Some Generators at the Customers' Expense

MISO states in its proposal:

> Because renewable portfolio standards, which are imposed by the states and are the obligation of the load serving entities within those states, are driving the need for increased interconnection of renewable (particularly wind) resources, it is appropriate to allocate costs to the load served by the load serving entities. Moreover, load is also the expected primary beneficiary of renewable portfolio standards and therefore of new MVPs.[11]

[9] In mid 2011 it is expected that First Energy will leave MISO and join PJM. Thus Michigan will then have more interconnection with PJM than MISO.
[10] Laverty testimony, MISO proposal, Tab H.
[11] Moeller testimony, MISO proposal, Tab E, page 19.

Clearly, the proposed MVP transmission projects are intended to support the integration of new resources, including renewable generation projects that are mandated by the states. However, designing the cost allocation method so that 100 percent of MVP transmission costs are allocated to load and exports amounts to a subsidy paid to generators by customers. The cost of integrating these generation sources is part of the generators costs, and should be paid by the generator. These costs, of course, will be recovered from customers, but will be associated with the generators that require the transmission MVP.

MISO's proposal creates a subsidy because costs are evenly spread across their entire footprint without commensurate benefits. When benefits and policy mandates have such disparity the result is that one state or group of states subsidizes the others.

Extracting subsidies from one state to subsidize another state's portfolio standard is inefficient, unfair, and will likely undermine a long term commitment to changing the current resource mix. It is inefficient since the cost associated with the generation project that requires the MVP transmission facility would be paid by the region, not the generator or the state that mandated the generator. The subsidy distorts the cost of the generator that makes it appear less expensive in comparison with other resources. This discourages the development of generators that are less costly overall and can meet the same state mandate more cost effectively.

This could also lead to construction of inefficient generation. Because the transmission cost associated with MVP projects is not reflected in the cost of generation, it might be possible to construct generation that would otherwise be considered uneconomical. This could be mitigated if some of the transmission cost were assigned to generation. Under the uniform tariff

proposed by MISO, where all of the costs are assigned to MWh usage, the likelihood of inefficient generation is accentuated.[12]

This MVP tariff proposal is also unfair because some states will, in effect, be subsidizing others states' RPS policies. These RPS mandates range from 0 percent to 25 percent just within the MISO territory. A region-wide subsidy cannot be uniformly applied because RPS policies are not uniform across the region. Given this disparity, it is impossible to allocate these costs in a manner that meets the "roughly commensurate" cost allocation standard as interpreted by the Courts. The MISO proposal violates the "cost causation principle" and should be rejected. In the absence of a Congressional mandate, postage stamp cost allocation proposals such as this should not be done through uniform transmission tariffs.

IV. The Criteria for Multi-Value Projects (MVP) are vague and expansive

The three criteria laid out by MISO to qualify a project as an MVP would likely incent many future transmission projects to be classified as MVPs thereby shifting enormous costs across the MISO footprint. The Commission should first clearly define such standards for MVP projects in its current Rulemaking in Docket No. RM10-23. To do otherwise is putting the cart before the horse. The Commission should not accept the current tariff until a clear and reasonable bright line has been determined. For example, a clear bright line is needed between MVP's and Network Upgrades because the cost allocation associated with each are substantially different. Under the Network Upgrades rules, 90 percent of the costs associated with transmission lines rated at 345 kV or above would be assigned to interconnection customers

[12] Evaluation of MVP Transmission Cost Allocation Design, prepared by Scott Harvey and Susan Pope, June 9, 2010 page 34-35.

associated with the upgrade.[13] However, under the MVP rules, 100 percent of those same costs would be allocated on the basis of region-wide usage. For projects currently under review, such a change from a Network Upgrade classification to a MVP classification would reduce the cost per MW from $567,000 to $60,000 and therefore would shift $730 million of revenue requirements from Network Upgrades to MVPs.[14]

MISO is capable of determining a bright line for distinguishing between types of projects. For example, determining whether a second generator is a "late comer" and therefore should pay under its shared upgrade rules, MISO has established a two part test. First, MISO determines if second generator will have an impact on the Network Upgrade that is greater than 5 MW or one percent of the line rating. Second, MISO determines "whether the distribution is greater than twenty percent or the impact is greater than five percent of the line rating."[15] If both tests are met, then the second generator is required to contribute to the shared network upgrade. This test is clear and reasonable. However, no such test is available to determine whether or not a project is an MVP or a Network Upgrade. With such a test absent, neither investors who finance the projects, nor customers who pay for them, would be able to evaluate the projects in advance. They would not be able to determine in advance which MISO tariff would apply to any new MVPs or transmission lines. Instead of adopting a policy that would encourage new projects, MISO's proposal would discourage investment due to this uncertainty.

[13] Laverty, Tab D, page 19.
[14] Laverty, Tab D, page 22.
[15] Laverty, Tab D, page 16.

V. The Three criteria for determining whether a project is an MVP do not ensure that the costs allocated to a beneficiary are at least roughly commensurate with the benefits that are expected to accrue to that entity

The first criterion states that the project must enhance reliability and economically support documented energy policy mandates or laws that govern specific energy source requirements.[16] Clearly, almost any project will have a positive impact on reliability, even those projects that gold plate a system or just add redundancy to a particular part of a transmission grid. As noted, adding reliability in one part of the network does not necessarily add reliability to all portions of the network in a proportional fashion, even though the MVP charges apply to all portions of the network in a proportional fashion related to usage. Thus, there can be an uneven and non-roughly commensurate benefit/cost relationship. The same phenomenon can occur with regard to energy policy mandates and laws. There is no rough equivalency between usage across the region and these mandates and laws. It is simply not a reasonable comparison. In order to establish such an equivalency, it is necessary to show that the project has a positive benefit and meets the mandates or laws in each price zone and sub-region. If the project meets the mandates in one sub-region and not in the other regions, then it would be necessary to establish sub-region tariffs rather than uniform tariffs.

The second criterion requires that the project provide multiple types of economic value across multiple pricing zones and have a benefit - cost ratio of 1.0 or higher.[17] "Multiple pricing zones," by definition, means at least two zones . However, there are currently 23 pricing zones.[18] Thus, it would be possible for a project that provides benefits to only two of 23 pricing zones to be recovered from customers in all 23 pricing zones. Such a cost recovery scheme does not

[16] MISO proposal, page 21.
[17] Id
[18] Injection / Withdrawal Transmission Cost Allocation, OMS CARP, December 14-15, 2009, slide 21.

meet the "roughly commensurate" standard because there is little relationship between costs and benefits. Instead, costs should be recovered from those who most benefit from the project, which in this hypothetical case would be only from customers in the two affected pricing zones. It is MICH-CARE's position that FERC should establish a cost allocation method that focuses on local and sub-regional benefits rather than a postage stamp approach across the entire MISO footprint. Crafting such a proposal would be more reasonable rather than using the gross assumption that benefits are evenly spread across the entire MISO region according to relative usage.

The third criterion requires that the project addresses one transmission issue associated with a NERC or regional standard and one economic-based transmission issue that provides value across multiple pricing zones.[19] Again, the use of the multiple pricing zones criterion indicates that benefits could accrue to only two pricing zones to qualify as "multiple pricing zones." There may be no relationship between such limited benefits and region-wide usage patterns.

VI. The uniform MWh rate associated with MVP projects reduces the incentive to create and implement socially cost effective demand-side management programs

Alternative cost allocation methods assign transmission cost to generation and load on a MW rather than a MWh basis.[20] When transmission costs are assigned on a MW basis, load serving entities are provided with an incentive to reduce MW loads using effective measures such as demand-side management programs. Elimination of these incentives by switching to a

[19] MISO proposal , page 21.

[20] This includes the Highway/Byway or Injection/withdrawal method. See Evaluation of Midwest ISO Injection/Withdrawal Transmission Cost Allocation Design, prepared by Scott Harvey and Susan Pope, March 5, 2010 (Updated April 15, 2010).

uniform usage base (that is, "postage stamp") tariff could substitute expensive transmission and generation investment that would replace cheaper demand-side management programs. This switch in incentives that emphasizes building over conservation would use more private resources and increase the production of negative externalities such as CO_2 emissions.

VII. The assertion that MVPs will decrease system line losses is not been supported in the record

It is asserted that MVPs will reduce the system line losses and thus reduce required reserves.[21] However, the purpose of the MVP is to move energy across longer distances from the west side of the region to the east and possibly to the PJM. Line losses tend to increase with the distance the energy is transported. Thus, on first appearance, MVPs would be associated with greater rather than less line losses. While this general rule might not hold for all projects, it is therefore necessary for MISO to place the detailed analysis of those projects into the record in order to support its claim that the MVPs reduce line losses. Because that analysis is not in the record, the Commission cannot accept MISO's unsupported assertions. Such action would be contrary to current law which requires FERC to substantiate its rationale when it adopts rate setting methodologies.[22]

VIII. The assertion that MVPs will reduce capacity reserves is not supported in the record.

Wind projects are generally recognized as having capacity values substantially below their capacity ratings due to the variability of the wind and the non-coincident nature of the

[21] Lawhorn, Tab F, page 15.
[22] See *Illinois Commerce Commission v FERC*, 576 F.3d 470 (7th Cir. 2009)

energy source. Therefore, the reduction in reserves that may be associated with MVPs must be associated with a reduction in congestion and the performance of coal plants that can be counted on to provide additional reserves across a region. However, those coal plants are associated with historical interconnection tariffs and most likely had to pay transmission upgrade charges. Thus, the plants that provide the resources to reduce the system reserves had to pay these charges while the wind plants will get the credit for the reduction and will have customers pay the charges.

Overall, the transmission cost allocation treatment in MISO's proposal cannot be considered to be roughly commensurate with the benefits derived from the projects. Also, there is no guarantee that the reduction in reserves will affect the entire region proportionately with region usage. In order to support such a claim it is necessary to evaluate the reserve reduction in each region and pricing zone. Such evaluation was not placed into the record and may never have been performed. Prior to accepting the proposed tariff, the Commission must require MISO to provide the support documentation that shows the sub-region and pricing zone impacts of reserve reductions and also shows that those such cost reductions are proportional to pricing zone and sub-regional usage. Without such a record it is MICH-CARE's position that FERC should reject the MISO proposal as submitted and instead establish a cost allocation method in Docket RM10-23 that focuses on local and sub-regional benefits rather than the postage stamp approach submitted by MISO.

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Table 1: State Unemployment Rates	
State	**Unemployment Rate (%)**
Michigan	13.1
Midwest States	
Illinois	10.3
Indiana	10.2
Ohio	10.3
Wisconsin	7.8
Norht Central States	
Iowa	6.8
Minnesota	6.8
Missouri	9.2
Montana	7.3
North Dakota	3.6
South Dakota	4.4
Other States	
Kentucky	9.9
Pennsylvania	9.3

Data: July 2010 unemployment rates for states
Source: www.bls.gov/lau/home.htm

Table 2: MISO States Average Electric Rates										
(Cents per Kilowatthour)										
Census Division and State	Residential		Commercial[1]		Industrial[1]		Transportation [1]		All Sectors	
	May-10	May-09	May-10	May-09	May-10	May-09	May-10	May-09	May-10	May-09
Middle Atlantic	16.16	14.94	13.87	12.85	8.46	8.39	13.02	13.04	13.53	12.64
Pennsylvania	13.4	12.05	10.21	9.84	7.59	6.95	7.46	8.72	10.33	9.59
East North Central	11.8	11.47	9.15	9.08	6.47	6.8	6.71	9.29	9.01	9.04
Illinois	11.96	12.13	7.94	8.33	7.48	7.37	6.46	8.94	9.05	9.24
Indiana	9.98	10.04	8.24	8.28	5.71	5.78	10.1	9.77	7.49	7.62
Michigan	12.84	11.98	10.64	9.6	7.29	7.86	10.88	10.87	10.23	9.82
Ohio	11.68	11.21	9.81	10	6.19	6.97	9.66	12.72	8.95	9.26
Wisconsin	12.71	12.02	9.82	9.41	6.56	6.6	--	--	9.5	9.15
West North Central	10.05	9.57	7.84	7.43	5.61	5.64	6.57	6.72	7.79	7.58
Iowa	11.03	10.26	7.75	7.28	5.11	4.86	--	--	7.42	6.99
Minnesota	10.45	10.17	8.13	7.68	5.81	6.27	7.74	7.66	7.97	8.03
Missouri	9.79	9.27	7.69	7.15	5.32	5.38	5.13	5.56	7.88	7.55
North Dakota	8.49	8.28	7.1	6.98	6.25	5.93	--	--	7.21	7.07
South Dakota	9.34	8.86	7.59	7.2	5.99	5.67	--	--	7.88	7.49
East South Central	9.93	9.79	9.34	9.18	5.77	5.86	11.81	11.18	8.04	8.08
Kentucky	8.67	8.51	7.72	7.47	5	4.86	--	--	6.49	6.4
Mountain	10.92	10.37	9.23	8.67	5.98	5.9	9.73	8.17	8.73	8.38
Montana	9.1	8.98	8.39	8.13	5.5	5.73	--	--	7.49	7.43
U.S. Total	11.96	11.8	10.19	10.08	6.69	6.86	10.85	11.64	9.8	9.83

Source

Table 5.6.A. Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State, May 2009 and May 2010. U.S. Energy Information Administration, Form EIA-826, "Monthly Electric Sales and Revenue Report with State Distributions Reports."